BELGIUM'S STABILITY

PROGRAMME

(2015-2018)

Foreword

Belgium's stability programme sets out the budgetary policy stance and targets for the period 2015-2018. It should be read in conjunction with the National Reform Programme. The two programmes serve as the national medium-term budgetary plan as referred to in Regulation (EU) No 473/2013.

This stability programme was drawn up with due regard for the "Guidelines on the format and content of Stability and Convergence Programmes" dated 3 September 2012.

The stability programme was approved on 24 April by the Federal Government Council of Ministers jointly with the Communities and the Regions during the Consultative Committee of 29 April 2015. During this meeting, the Consultative Committee took note of the stability programme 2015-2018 which provides for both a structural budgetary balance for general government in 2018 and a structural budgetary balance in the budgetary paths of both entities by 2018 at the latest.

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1. Introduction

When taking off in October 2014 the federal government presented an ambitious programme of structural reform. Under the EU2020 strategy, Belgium will continue its commitment to a policy aimed at improving the dynamism of the economy and thus preserving social well-being.

Since June 2014, Belgium is in the preventive arm of the Stability and Growth pact. In 2014, the public deficit came to 3.2% of GDP. On the basis of a thorough analysis in which all relevant factors were taken into account, the European Commission found at the end of February 2015 that the deficit remained close to the reference value and that its excess over the reference value was exceptional and only temporary. As for the debt criterion, the Commission found the compliance with this criterion particularly demanding in a context of slow growth and low inflation.

As stipulated in the cooperation agreement of 13 December 2013 between the Federal State, the Communities, the Regions, and the Community Commissions on the implementation of Article 3(1) of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, on 27 March 2015, the Public Sector Borrowing Requirements Section of the High Council of Finance issued an opinion on the overall budgetary target and its allocation among the various levels of power.

On the basis of that opinion, the Federal Government drew up a stability programme 2015-2018 which was approved by the Federal Government Council of Ministers on 24 April 2015. The Consultative Committee of 29 April 2015 took note of the stability programme 2015-2018 which provides for both a structural budgetary balance for general government in 2018 and a structural budgetary balance in the budgetary paths of both entities by 2018 at the latest.

The proposed path improves the structural balance by 0.7% of GDP in 2015, 2016 and 2017 each year. This structural improvement should achieve 0.6% of GDP in 2018 in order to reach the structurally balanced budget. In 2015, a structural balance of -2.0% of GDP and a nominal balance of -2.5% of GDP are envisaged. This path is consistent with the European budgetary framework. It meets the requirements of the preventive arm in the Stability and Growth pact as far as the structural balance is concerned and enables compliance with the debt criterion as from 2017.

The governments set structural reforms as a key objective. That corresponds to the recommendations by the European Commission and the High Council of Finance stating that the implementation of the reforms is required in order to guarantee credibility of the sustainable budgetary policy, in particular for pension systems.

2. Economic situation and macroeconomic assumptions

2.1. International economic environment

After speeding up in the year 2013, growth in global activity slowed down in the first quarter of 2014. In the next two quarters, global activity bounced after the solid recovery of the US growth. However, a slowdown was detected in China and in various oil- or commodity-producing countries.

The world economy is forecast to be more dynamic in 2015 as a consequence of the marked decrease of the oil price. The US economy is also expected to be the main driver of growth. According to the European Commission's winter forecasts, global economic growth came to 3.3% in 2014 and would come to 3.6% in 2015 and to 4% in 2016.

European economic growth recovery was not dynamic enough in 2014. The level of company investments remained relatively low due to the difficulties that companies have in obtaining access to credit, their high debt ratio and the rather poor market prospects. Moreover, there was just a minor contribution of exports to growth. According to the European Commission's forecasts, activity in the euro area went up with 0.8% and in the European Union (EU) with 1.3%.

The rise in exports, particularly by the depreciation of the euro, and the strengthening of domestic demand, is expected to enable a moderate recovery of Europe's economy as from 2015. The sharp fall of the oil price results in a rise of households' disposable income and the profit margin of the companies. Domestic demand would also be supported by an accommodating monetary policy and, as from 2016, by the European Commission's new investment plan. OECD's *composite leading* indicators - which were published in April 2015 - also indicate a positive turnaround in economic activity in the euro area.

Yet, European growth would be constrained by the debt ratio and unemployment which are still high in various Member States, as well as by the trade disputes with Russia. In 2015, it should amount to 1.3% in the euro area and 1.7% in the EU and by 2016, it is forecast to climb to 1.9% in the euro area and 2.1% in the EU.

Even if all Member States achieved a positive growth, the economic output will always vary. That is the result of differences in the speed of the structural reform implementation and in debt-reduction processes in the private (including the banking sector) and public sector. The size of the positive impact created by the low oil price will also depend on the energy dependence of each member state.

In the third quarter of 2014, GDP increase in Belgium (0.9% per annum) slightly exceeded the average rise in the three principal neighbouring countries (0.8%). However, these countries show divergent trends: while GDP growth in France only amounted to 0.4% in this period, GDP in the Netherlands increased by 1% and in Germany by 1.2%.

2.2. Economic developments in Belgium

After two years of low growth (0.1% in 2012 and 0.3% in 2013), Belgian GDP increased by 1% in 2014. This recovery is based on the export increase which is the result of economic activity strengthening within the euro area and domestic demand strengthening.

On a quarterly basis, the evolution of Belgian GDP was relatively variable. Despite GDP growth of 0.4% and 0.3% in the first and third quarter of 2014 respectively, this growth only came to 0.1% in the other quarters of that year and in an uncertain economic context.

The indicators of business and consumer confidence deteriorated a little before mid-2014. Subsequently, the National Bank of Belgium's barometer which assesses business confidence, has almost stabilised at a low level. After a new decline at the end of 2014 and the beginning of 2015, it improved in February and March 2015. The consumer confidence indicator gradually declined in the second quarter of 2014 and started to improve as from December. Yet, it slightly weakened in March 2015.

2.3. The economic outlook according to the Federal Planning Bureau

The budgetary path in this stability programme is based on an advance indication of the medium-term economic outlook for 2015-2020 produced by the Federal Planning Bureau in March 2015.

These estimates are based on the February 2015 economic budget, adapted to take account of the latest developments. The majority of the data available on 17 March 2015 and with regard to public finances have been considered.

The data on the international economic environment in 2015 and 2016 are respectively based on the latest consensus forecast (*Consensus Economics*) and the quarterly estimates of the world trade in goods established by the Dutch Central Planning Bureau, and the European Commission's winter forecasts.

For subsequent years the Federal Planning Bureau's forecasts are based on the European Commission's economic projections that are extended until 2024. The other sources used are IMF's projections dated October 2014 as for the countries outside the EU and the United States, as well as the forward markets as for certain financial data and prices.

According to these estimates and further to a climb of 1.3% in 2015 and 1.9% in 2016, GDP of the euro area should come to an average of 1.3% on an annual basis for the period 2017-2020. This scenario is based on the assumption that the negative output gap in the euro area will be closed by 2019.

For 2015 and 2016, the assumption concerning the oil price and the euro/dollar exchange rate is based on the forward market quotes dating of the beginning of February 2015. This assumption has been chosen because not only is it more recent, it is also more in conformity with the latest developments. After 2016, the euro exchange rate is predicted to remain stable and the oil price is assumed to increase by the same speed as in the European Commission's assumption that was drawn up within the framework of the compiling of the 2015 EU baseline scenario.

However, the international scenario is uncertain. On the one side, economic forecasts could become bleaker if the general decline of consumption prices would stretch over a lengthy period. Together with a very low growth, deflation could impede the debt-reduction process in various European countries. On the other, economic growth could exceed expectations due to the euro impairment and the sharp fall of the oil price.

Table 1: External environment: basic assumptions

	2014	2015	2016	2017	2018
Short-term interest rate (annual average)	0.2	0	0.1	0.2	0.3
Long-term interest rate (annual average)	1.9	0.8	1	1.1	1.2
USD/€ exchange rate x 100 (annual average)	132.9	114.7	115.6	115.6	115.6
Nominal effective exchange rate (2005 = 100)	103.3	101.3	101.8	101.8	101.8
GDP growth – world (excluding EU) (%)	3.7	4	4.4	4.5	4.5
GDP growth – EU (%)	1.3	1.7	2.1	1.5	1.5
Growth of relevant external markets (%)	2.9	4.4	5.5	4.7	4.7
Global imports, by volume (excluding EU)	2.1	4.2	5.3	6	6
Oil price (USD)	99	59.3	67.5	69.8	72.4

Source: Federal Planning Bureau

The Federal Planning Bureau predicts that Belgium's GDP will grow by 1.2% in 2015 and 1.5% in 2016. These estimates are slightly better than the European Commission's winter forecasts. The growth expected for the year 2015 is also higher than the growth in the February 2015 economic budget as a result of the upward revision of consumption expenditure and the rise in public investment expenditure. Contrary to previous years, in 2015-2016, economic activity in Belgium is set to be less vigorous than the euro area average.

During the period 2017-2020, Belgian economic activity is forecast to grow gradually by an average of 1.6%, which means that the euro area average expected will be outpaced. The output gap, which was very negative in 2013 (-2.3 % of GDP), will gradually diminish and be eliminated in 2020.

Table 2: Macroeconomic projections

% change unless otherwise stated	2014 in € billion	2014	2015	2016	2017	2018
1. GDP growth at constant prices	341.6	1	1.2	1.5	1.6	1.7
2. GDP growth at current prices (in € billion)	402.4	1.8	2.1	2.4	2.5	2.9
	Growth components					
3. Household final consumption expenditure	174.2	0.9	1.3	1.1	1.1	1.3
4. General government final consumption expenditure	78.1	0.5	0.6	0.7	0.6	0.6
5. Gross fixed capital formation	77.2	4.6	0.2	2.2	2.7	2.8
6. Change in inventories and net acquisition of assets	-1	-1	-1	-1	-1	-1
7. Exports of goods and services	298.6	3.7	3.7	4.1	4.1	4.1
8. Imports of goods and services	284.8	3.1	3.4	3.9	3.9	4
	Contribution to GDP growth					
9. Total final demand (3+4+5)		0.5	0.8	1.2	1.3	1.4
10. Change in inventories and net acquisition of assets		-1	0	0	0	0
11. External balance of goods and services		0.5	0.3	0.3	0.3	0.2

Source: Federal Planning Bureau

In 2014, the growth of private consumption expenditure was limited to 0.9%. Household savings mounted up to 13.9% of disposable incomes, in view of the absolute low point of 13.5% in 2013 which, nevertheless, was reached in a climate of uncertainty. In real terms, the disposable income increased by 1.5% in 2014 thanks to the employment growth and the gross wages increase in the market sector.

The increase of consumer expenditure in 2015 (1.3%) is forecast to stay beneath the disposable income increase (1.7%), but less so than in 2014, and the savings ratio is forecast to climb to 14.1%. Household purchasing power is expected to be supported by the same factors as the previous year, but also by tax incentives such as the rise of deductible flat-rate professional expenses. Improvements in the Belgian labour market may also contribute to the strengthening of consumer confidence.

As from the second half of 2013, climate for corporate investments was more favourable as a result of the recovery of business confidence and the increase in capacity utilisation. However, further to a spillover effect, investments decreased by 1.2% per annum in 2013.

In 2014, corporate profitability enhanced, interest rates remained very low and credit conditions were eased; consequently, the investment climate stayed favourable. It is predicted that this will also apply for 2015. The investments, which increased by 2.6% in 2014, are expected to keep rising in 2015, with a growth of 2.9%[1]. They would therefore become the most dynamic component of the domestic demand.

The growth recovery of housing investments is expected to remain moderate in 2015 (0.5% compared to 0.6% in 2014). Despite their low level in nominal terms, mortgage interest rates in real terms are expected to be higher than in 2011-2012, the low inflation taken into account. Moreover, credit conditions are expected to be more stringent.

Belgian export is expected to be promoted in 2015 by the improvement of the world economy and the Euro depreciation. Its growth is expected to accelerate each quarter. Annual growth, however, is forecast to remain the same as the previous year (3.7%) due to a carry-over effect which is clearly less favourable than in 2014. Import increase in 2015 is

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1 The figures on corporate investments are influenced by some major purchases made abroad in 2014 which do not affect GDP because import increased to the same extent. The figures that are mentioned do not take account of these purchases.

expected to be lower than export increase, which was also the case in 2014. Therefore, the contribution of net exports to growth was 0.6% in 2014 and is expected to be 0.3% in 2015.

Inflation measured by the national consumer price index, continued to slacken markedly in 2014. It came to 0.3%, compared to 1.1% in the previous year, and this was particularly the result of the fall in fresh food prices and the reduction in VAT on electricity for households. Inflation is expected to drop to 0.2% in 2015. This evolution could be due to the significant decrease of the oil price in dollars, the impact of which could only partially be compensated by the Euro depreciation, as well as by the further slowdown of the underlying inflation and the wage moderation.

Table 3: Prices

% change	2014 (2005=100)	2014	2015	2016	2017	2018
1. GDP deflator	117.8	0.8	1	0.9	1.2	1.3
2.Deflator of household final consumption expenditure	118.9	0.6	0.2	1.2	1.2	1.3
3. Change in the HICP	120.3	0.3	0.2	1.2	1.2	1.3
4. Deflator of general government final consumption expenditure	126.1	1.6	0.3	0.8	1.1	1.5
5. Investment deflator	119.6	0.2	0.1	0.7	0.9	1.2
6. Deflator of exports of goods and services	112.7	-0.8	-0.4	1.5	1.6	1.8
7. Deflator of imports of goods and services	115.3	-1	-1.4	1.8	1.9	1.9

Source: Federal Planning Bureau

Conditions on the labour market slightly enhanced in 2014 as a result of economic growth. Total employment increased by 0.3% (compared to a 0.3% decrease in 2013). The Federal Planning Bureau expects employment to increase by 0.5% in 2015. The limited rise of labour costs is expected to have a positive effect on employment, but labour costs are expected to rise slower than economic activity, taking account of the catch-up phenomenon. Productivity and working time, which both receded during the economic slowdown, are expected to return to pre-crisis levels.

Employment rate of the working age population (aged 20 to 64) is expected to rise from 63.8% in 2014 to 64% in 2015.

The harmonised unemployment rate (Eurostat definition) is expected to make a small decrease from 8.5% in 2014 to 8.4% in 2015. Since this year, the unemployed receiving a company supplement must remain available on the labour market. As a consequence, the category consisting of the unemployed job seekers expanded, statistically increasing unemployment and the working population volume. Although the decrease was less pronounced, unemployment in Belgium is said to remain significantly lower than the average of the euro area which is expected to fall from 11.6% in 2014 to 11.2% in 2015.

Table 4: Labour market

% change	2014 Level		2014	2015	2016	2017	2018
1. Domestic employment	4557.1	A	0.3	0.5	0.8	0.9	0.8
2. Number of hours worked	7200.5	B	0.6	0.6	0.8	0.8	0.7
3. Unemployment rate (% Eurostat definition)	8.5		8.5	8.4	8.2	8	7.9
4. Labour productivity per person in work	75	C	0.7	0.6	0.7	0.8	0.8
5. Labour productivity per hour worked	47.4	D	0.5	0.5	0.6	0.8	0.9
6. Compensation of employees (ESA code D.1)	204.8	E	1.3	0.9	1.2	1.8	2.7
7. Compensation per employee	53.9	F	1.1	0.4	0.2	0.8	1.8

a: thousands; b: million hours; c: EUR thousand; d: EUR; e: EUR billion; f: EUR thousand
Source: Federal Planning Bureau

3. Balance and debt of general government

3.1. Keystones of budgetary policy

Path based on the opinion of the High Council of Finance

On 29 April 2015, the Consultative Committee discussed the government's overall budgetary target and its allocation in nominal and structural terms.

The path to be followed throughout the government sector, as presented by the Borrowing Requirements Section, is based on the budget plan that was transferred to the European Commission in October 2014. This path was based on the multi-annual objectives of the federal, community and regional governments and aimed at a structural and nominal balance by 2018. According to the draft budget plan, this path had to be discussed by the Consultative Committee together with the update of the stability programme.

The scenario presented by the High Council of Finance departs from an improvement of the structural balance which comes to 0.7% of the GDP in 2015, 2016 and 2017. An improvement of GDP with 0.6% by 2018 must be achieved in order to reach the structurally balanced budget.

Objectives considered in this stability programme

Based on the opinion of the High Council of Finance's Borrowing Requirements Section of 27 March 2015, the federal government approved a budgetary path during the Council of Ministers of 24 April 2015. It was presented to the Communities and Regions during the Consultative Committee of 29 April 2015.

The Consultative Committee of 29 April 2015 took note of the stability programme 2015-2018 which provides for both a structural budgetary balance for general government in 2018 and a structural budgetary balance in the budgetary paths of both entities by 2018 at the latest.

The path adopted that is presented in the tables below (5, 6, 7 and 8) is based on the opinion of the High Council of Finance. The following adjustments were made:

- annual improvement of the structural balance was copied from the High Council of Finance's opinion but was applied to the 2014 realizations as published by the NAI on 17 April;
- as for the transfer from the structural to the nominal balance, an additional correction for non-recurring effects of the revision of receipts ensuing from the Regions' fiscal autonomy, is taken into account;
- the federal budgetary control, providing for an additional structural improvement amounting to 0.05% of GDP (200 million euros) for entity I in 2015, is taken into account.

Table 5: Targets for 2015-2018

	Target definition	Estimated/target structural balance in % of GDP
2014	Estimated structural balance as the starting point	-2.8
2015	0.7% improvement in the structural balance	-2.0
2016	0.7% improvement in the structural balance	-1.3
2017	0.7% improvement in the structural balance	-0.6
2018	Attainment of a structurally balanced budget	0.0

A systematic structural improvement will appear in the period as from 2015 to 2018.

The path results in a two-year postponement of the structural balance in respect of the previous stability programme, but it goes further than the scenario based on the minimum improvements required by the preventive arm of the Stability and Growth Pack for countries no longer subject to the excessive deficit procedure (but that did not attain their MTO and that have a debt ratio exceeding 60% of GDP), namely an improvement in the structural balance of at least 0.5 % per annum.

Although the systematic improvements in the structural balance are in conformity with European requirements, they do not lead to the achievement of the medium-term objective (MTO) of 0.75% of GDP within the time frame indicated by the stability programme. It is possible that Belgium's MTO will be subject to a downward revision in the years to come, as a result of the structural reforms in the pension system that are announced.

Consolidation of public finances as part of a broader policy

This programme focuses on the broad budgetary policy stance. In order to restart economic growth and employment, the government relates the achievement of structural reforms to budgetary policy. The main aspects of that policy are discussed in the national reform programme and will also be addressed in part 5 of this stability programme.

3.2. Medium-term public finances

3.2.1. Evolution of the structural balance

The proposal for the scenario is based on the improvement in the structural balance and the targets defined in terms of the structural balance. Line 10 of table 5 provides a survey of Belgium's targets for 2015-2018. The table translates this structural balance into a nominal balance. In practice, the nominal balance to be achieved each year will depend on the output gap and the impact of any one-off measures.

The transposition of a structural objective in nominal terms depends on the estimate of the cyclical component, and thus on the output gap and potential growth. These data come from the Federal Planning Bureau's economic outlook for 2015-2020[2]. As for the one-off measures, the data of the Federal Planning Bureau and the High Council of Finance have been adjusted to the budgetary control decisions taken be the federal government and the most recent estimates of the "State tax" (see above).

Table 6: Composition of the structural balance of general government

In % of GDP	2014	2015	2016	2017	2018
1. Real GDP growth	1.0	1.2	1.5	1.6	1.7
2. Actual financial balance	-3.2	-2.5	-2.0	-1.0	-0.2
3. Interest charges	3.1	2.8	2.5	2.3	2.1
4. One-off or temporary measures	0.4	0.3	0.0	0.1	0.1
5. Potential GDP growth (in % of GDP)	1.0	1.1	1.2	1.3	1.3
6. Output gap	-1.5	-1.4	-1.1	-0.7	-0.3
7. Cyclical component of the budget	-0.9	-0.8	-0.7	-0.4	-0.2
8. Cyclically adjusted financial balance (2-7)	-2.3	-1.7	-1.3	-0.6	0.0
9. Cyclically adjusted primary balance (8+3)	0.7	1.1	1.2	1.8	2.2
10. Structural balance (8-4)	-2.8	-2.0	-1.3	-0.6	0.0

[2] The method used by the Federal Planning Bureau and the differences compared to the European Commission's forecasts are explained in the Federal Planning Bureau report "La prévision par la Commission européenne de l'output gap pour la Belgique est-elle crédible?" (Igor Lebrun, March 2014)

3.2.2. A translation into nominal balances

Table 7 presents the general government financing balance that can be derived from the structural approach on the basis of the assumed output gap.

For 2014 the nominal balance used is the one defined at the April 2015 EDP notification.

The allocation of the effort between revenue and expenditure and between the various revenue and expenditure categories, shown in table 7, is indicative.

Article 9 of Directive 2011/85 requires Member States to have a multi-annual budgetary programme. That provision was transposed into Belgian law by Article 124/3 of the Law of 22 May 2003 on the organisation of the budget and accounts of the federal State, and Article 16/12 of the Law of 16 May 2003 laying down general provisions applicable to the budgets, monitoring of grants and the accounts of the Communities and Regions, and on the organisation of the Court of Audit.

On that basis, when drawing up the 2015 budget the governments had to establish a multi-annual budget programme covering the term of the parliament. This programme will have to be updated on the basis of this stability programme when developing the 2016 budget.

Table 7: Budget forecasts for general government[3]

		2014 *Level*	2014 *% GDP*	2015	2016	2017	2018
		Financial balance per sub-sector					
	General government	-13,058	-3.2	-2.5	-2.0	-1.0	-0.2
	Entity 1	-10,589	-2.6	-2.0	-1.5	-0.6	-0.1
	Federal government	-10,262	-2.6	-1.8	-1.5	-0.6	-0.1
	Social security authorities	491	0.1	0.0	0.0	0.0	0.0
	ESA correction hospital investments	-818	-0.2	-0.1	0.0	0.0	0.0
	Entity II	-2,470	-0.6	-0.6	-0.5	-0.4	-0.1
	Communities and Regions	-1,400	-0.3	-0.4	-0.4	-0.3	0.0
	Local authorities	-1,070	-0.3	-0.1	-0.1	-0.1	-0.1
		General government					
6.	Total revenue	205,527	51.1	50.6	50.4	50.4	50.5
7.	Total expenditure	218,585	54.3	53.1	52.3	51.4	50.6
8.	Financial balance	-13,058	-3.2	-2.5	-2.0	-1.0	-0.2
9.	Interest charges (EDP)	12,367	3.1	2.8	2.5	2.3	2.1
10.	Primary balance	-691	-0.2	0.2	0.5	1.3	2.0
11.	One-off or temporary measures	1,651	0.4	0.3	0.0	0.1	0.1
		Main revenue components					
12.	Total taxes	123,181	30.6	30.4	30.5	30.6	30.7
12a.	Taxes on production and imports	51,762	12.9	12.8	12.8	12.8	12.8
12b.	Taxes on income, taxes on assets	67,513	16.8	16.7	16.8	16.9	17.0
12c.	Taxes on capital	3,906	1.0	1.0	0.9	0.9	0.9
13.	Social contributions	66,457	16.5	16.4	16.1	16.1	16.1
14.	Property incomes	3,400	0.8	0.9	0.9	0.9	0.9
15.	Other	12,490	3.1	2.9	2.8	2.8	2.8
16.	Total revenue	205,527	51.1	50.6	50.4	50.4	50.5
p.m.	Overall levy	189,638	47.1	46.8	46.6	46.7	46.8
		Main expenditure components					
17.	Consumption expenditure	66,225	16.5	16.0	15.7	15.4	15.2
17a.	Remunerations	50,245	12.5	12.2	11.9	11.7	11.5
17b.	Intermediate consumption	15,979	4.0	3.8	3.8	3.7	3.7
18.	Total social benefits	101,710	25.3	25.4	25.1	24.9	24.7
of which: unemployment benefits		8,339	2.1	1.9	1.8	1.7	1.6
19.	Interest charges	12,367	3.1	2.8	2.5	2.3	2.1
20.	Subsidies	11,680	2.9	2.9	2.9	2.9	2.9
21.	Gross fixed capital formation	9,164	2.3	2.3	2.3	2.3	2.3
22.	Capital transfers	6,973	1.7	1.2	1.1	1.1	1.0
23.	Other	10,467	2.6	2.6	2.7	2.5	2.5
24.	Total expenditure	218,585	54.3	53.1	52.3	51.4	50.6

[3] As for budgetary control, the amount regarding the correction for hospital investments was not included on the social security level but offset against the financial balance of entity I. The same method was applied for the year 2014.

The financial balance of entity I comes to -2.0% of GDP. In order to reflect reality regarding social security, the correction for hospital investments was isolated.

3.2.3. Allocation of the targets

Allocation of efforts among entities

The allocation mentioned in this stability programme is based on the opinion of the High Council of Finance of 27 March 2015 and copies the structural improvements that it recommends.

Moreover, further to a re-estimate of the "State tax" following the publication of the High Council of Finance's opinion, the federal government will have to pay the Regional governments 750 million euros less per annum in the period 2015-2017, 560 million euros of which have a recurring impact and 190 million euros of which have a non-recurring impact in favour of the federal State. In accordance with the stipulations of the Special Finance Act, a provisional autonomy factor of 25.99% is applicable during that period. As from 2018, the definitive autonomy factor will come into force. As for the year concerned, the federal government will assume on the basis of the last estimates that a non-recurring transfer from the federal government to the Regions amounting to approximately three times 190 million euros, or approximately 570 million euros, will be executed. These amounts are now investigated by an inter-federal group of experts.

Both for entity I and for entity II, this will lead to a correction of the non-recurring factors that are considered by the High Council of Finance in order to realize the transfer of the structural into the nominal balance. As for entity II, an annual non-recurring loss for the period 2015-2017 and a non-recurring profit of 570 million euros for 2018 is taken into consideration. As for entity I, the reverse corrections are made.

Table 8 presents the nominal and structural objectives for entity I and entity II, as well as the structural improvements.

Table 8: Allocation of the targets between entity I and entity II

In % GDP	2014	2015	2016	2017	2018
Entity I					
Improvement of the structural balance		0.62	0.60	0.64	0.54
Structural balance	-2.3	-1.7	-1.1	-0.4	0.1
Financial balance	-2.6	-2.0	-1.5	-0.6	-0.1
Entity II					
Improvement of the structural balance		0.10	0.10	0.06	0.06
Structural balance	-0.5	-0.4	-0.3	-0.2	-0.1
Financial balance	-0.6	-0.6	-0.5	-0.4	-0.1
General government					
Improvement of the structural balance		0.72	0.70	0.70	0.60
Structural balance	-2.8	-2.0	-1.3	-0.6	0.0
Financial balance	-3.2	-2.5	-2.0	-1.0	-0.2

At the level of entity I, the assumption is that the structural balance will improve with at least 0.6% for the years 2015-2017 and 0.54% for 2018. Consequently, a limited structural surplus will be realized in 2018, which can be transposed into a nominal shortage of -0.1% of GDP.

Entity II should improve its structural balance with 0.1% in 2015 and 2016 and 0.06% of GDP in 2017 and 2018. The improvement of the structural balance for local governments foreseen by the High Council of Finance was applied to the 2014 realizations as published by the NAI. The negative structural balance in 2018 for entity II is the result of the consideration of the local authority investment cycle.

The underlying path for Communities and Regions is based on the opinion of the Borrowing Requirements Section of the High Council of Finance and is consistent with the objectives mentioned in table 7. It was based on the High Council of Finance's path. The following adjustments were made:

- annual improvement of the structural balance was copied from the High Council of Finance's opinion but was applied to the 2014 realizations as published by the NAI on 17 April;
- the transfer from the structural to the nominal balance considers an additional correction for non-recurring effects of the revision of receipts ensuing from the fiscal autonomy of the Regions.

If need be, it is the Communities' and Regions' task to ensure that their own paths developed when drawing up the initial 2015 budget, are adjusted to the following budget exercise and that the following is taken into account:

- the High Council of Finance's opinion;
- the Consultative Committee's notification of 29 April that took note of the document dated 23 April 2015 providing the achievement of a structural balance for each entity by 2018 at the latest;
- the macroeconomic context.

3.2.4. Reduction in the public debt

In 2014, debt ratio rose by 2% of GDP and came to 106.5% of GDP. It mainly concerns an endogenous rise. Apart from the negative primary balance (-0.2% of GDP), nominal growth of GDP (1.6%) compared to that of the implicit interest rate on the debt (3%) contributed to the debt ratio increase. The impact of exogenous factors comes to 0.6%. To a certain extent, transactions with a downward effect (KBC repayment and premium coming to approximately -0.1% of GDP in total and share premiums coming to approximately -0.5% of GDP in total) were compensated by transactions with an upward effect (classification of Dexia NV in the public sector perimeter with an impact of nearly 0.1% of GDP, Eandis' provisional financing of the Flemish municipalities' takeover of participations in Flemish gas and electricity distribution network administrators with an impact of approximately 0.2% of GDP, difference between cash receipts and ESA receipts with an impact of approximately 0.2% of GDP and support to euro area Member States in financial difficulties with an impact of approximately 0.2% of GDP).

As from 2017, the gap between the debt ratio and the benchmark of 60% of GDP must diminish by one-twentieth per annum. This reduction will be evaluated over three years. Until 2016, Belgium will be in a transitional period and must make sufficient progress in diminishing the debt ratio. Based on the concept *minimum linear structural adjustment* (MLSA), it will be evaluated whether the progress is adequate. According to the European Commission's report 126 (3) of 27 February 2015, the effort that is presently required by

MLSA (1.1% of GDP for 2015) is neither feasible nor desirable[4]. Yet, structural improvements combined with the boost of the expected nominal growth and the decline of the implicit interest rate enable a debt ratio reduction in the medium and long term. As from 2017, the debt criterion must be complied with in its prospective approach.

Table 9: Debt ratio determinants

In % of GDP	2014	2015	2016	2017	2018
1. Debt ratio	106.5	106.9	106.3	104.6	102.0
2. Change in the debt ratio	2.0	0.5	-0.6	-1.7	-2.6
	Factors contributing to the movement in the debt ratio				
3. Primary balance	-0.2	0.2	0.5	1.3	2.0
4. Interest charges	3.1	2.8	2.5	2.3	2.1
5. Factors contributing to the movement in the debt ratio	0.6	0.2	-0.1	-0.1	0.2
p.m. endogenous factors	1.4	0.3	-0.5	-1.6	-2.8
p.m. implicit interest level (in %)	3.0	2.7	2.4	2.2	2.1

3.3. Comparison with the stability programme 2014-2017 and sensitivity analysis

3.3.1. Comparison with the stability programme 2014-2017

The consolidation path for public finances proposed by Belgium in this stability programme will improve the structural balance systematically in line with the previous stability programme and conforms to the requirements set by the Stability and Growth Pact.

Table 10 compares the growth assumptions and budget targets of the successive stability programmes. In the light of the May 2014 federal and regional elections, the April 2014 stability programme consisted in a merely indicative path.

Economic growth is somewhat lower than was expected last year. Over the period in question, growth was expected to rise from 1.2% in 2015 to 1.7% in 2018.

Belgium aims at a structural balance in 2018. The previous programme planned this for 2016.

Debt ratio is somewhat higher than was expected last year. One of the reasons lies in the extension of the consolidation scope by the NAI in April 2014 and the transfer to ESA 2010 in the course of 2014.

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[4] European Commission, *Report from the Commission, Belgium, Report prepared in accordance with Article 126(3) of the Treaty*, Brussels, 27.2.2015, COM(2015) 112 final, p.19

Table 10: Comparison with the previous stability programme

In % of GDP	2014	2015	2016	2017	2018
GDP growth					
Previous update	1.4	1.8	1.7	1.7	
Current update	1.0	1.2	1.5	1.6	1.7
Difference	-0.4	-0.6	-0.2	-0.1	
Financial balance					
Previous update	-2.1	-1.4	-0.4	0.6	
Current update	-3.2	-2.5	-2.0	-1.0	-0.2
Difference	-1.1	-1.1	-1.6	-1.6	
Structural balance					
Previous update	-1.4	-0.7	0.0	0.7	
Current update	-2.8	-2.0	-1.3	-0.6	0.0
Difference	-1.4	-1.3	-1.3	-1.3	
Gross debt ratio					
Previous update	101.2	99.4	96.7	93.2	
Current update	106.5	106.9	106.3	104.6	102.0
Difference	5.2	7.5	9.6	11.4	

3.3.2. Sensitivity analysis

As mentioned above, the economic outlook remains unsure. In accordance with the *Code of Conduct*, it is therefore important to conduct sensitivity analyses on the macroeconomic parameters for the path described in this stability programme.

Two sensitivity analyses are treated in this part. The first analyses GDP growth and the second is an interest rate analysis.

a. GDP growth sensitivity analysis

Two alternative scenarios are examined as for GDP growth. The first scenario assumes that, for the period 2015-2018, economic growth rises by 0.5 percentage point per annum, or 2% altogether over the period in question. In the second scenario, over the period 2015-2018 GDP growth stays below the baseline assumption by 0.5 pp per annum.

In this analysis, it is assumed that the elasticity of public finances to GDP is constant at 0.61 for Belgium, as estimated by the European Commission.

In the event of higher growth, the financial balance will automatically become positive more quickly. If growth were 0.5% higher than in the baseline scenario, the nominal financial balance would improve by 0.3% of GDP in 2015. In 2016, the impact on the nominal financial balance is predicted to be 0.6% of GDP. In this scenario, a nominal balance is forecast to be achieved in 2017, almost a year earlier than in the case of the basic scenario. In 2018, a nominal surplus of 1.1% of GDP is expected to be achieved. In that case, the debt will consequently also be reduced faster.

In the lower growth scenario, the annual impact is expected to be 0.3% of GDP again, which means that the nominal financial balance could deteriorate by 0.3% of GDP in 2015. That could increase to 1.2% of GDP in 2018. This increase in the deficit is partly due to factors relating to revenue, such as a reduction in tax revenues, and partly to factors concerning expenditure, particularly an increase in spending on unemployment benefits.

Table 11: Impact of other growth assumptions on the financial balance

In % of GDP	2014	2015	2016	2017	2018
Stability programme					
Real GDP growth	1.0	1.2	1.5	1.6	1.7
Financial balance	-3.2	-2.5	-2.0	-1.0	-0.2
Positive deviation of 0.5 percentage point					
Real GDP growth		1.7	2.0	2.1	2.2
Financial balance		-2.2	-1.4	-0.1	1.0
Negative deviation of 0.5 percentage point					
Real GDP growth		0.7	1.0	1.1	1.2
Financial balance		-2.8	-2.6	-1.9	-1.4

b. Interest rate sensitivity analysis

In the present economic environment and in view of the sensitivity of the Belgian economy to fluctuations in interest rates, it is also essential to conduct an interest rate sensitivity analysis.

A rise in market interest rates affects the Belgian economy via various channels. First, in view of the continuous need for refinancing, there is a direct impact on interest charges which has an adverse effect on the balance. Next, interest rate increases have an adverse influence on economic activity, mainly owing to the direct effect of interest rates on consumption and investment.

If both short- and long-term interest rates were to rise by 100 basis points from 1 May 2015 over the entire period 2015-2018, the impact on the federal public debt interest charges, taking account of the estimated average maturity of the debt, comes to 0.2 billion euros in 2015 (0.05% of GDP) and + 1.5 billion euros in 2018 (0.33% of GDP).

Table 12: Impact of an interest rate increase

Impact of an interest rate increase by 100 basis points	2015	2016	2017	2018
Difference in interest charges compared to the basic scenario (in € million)	200	730	1,155	1,481
Difference in interest charges compared to the basic scenario (in % of GDP)	0.0	0.2	0.3	0.3

The impact on the financial balance solely concerns the direct effect of an interest rate increase, as the indirect impact is not included in this sensitivity analysis.

3.4. Outcomes in 2014

In the draft budget plan 2015 dated of October 2014, a structural balance of -2.0% of GDP for 2014 and a nominal balance of -2.9% of GDP are envisaged.

In 2014, the nominal balance came to -3.2% of GDP (EDP notification of April 2015), due to a number of statistical corrections in the light of the transfer from ESA 95 to ESA 2010 (for example, the reclassification of some institutions in the public sector perimeter and the different treatment of some transactions in public accounts). [5]

Entity I's deficit came to 2.7 % of GDP. Entity II finished 2014 with a deficit of 0.6% of GDP.

On 27 February 2015, the European Commission published a report 126(3) for Belgium. This report investigates the compliance with the deficit and debt criterion. As for the shortage, the deficit benchmark was exceeded by 0.2% of GDP in 2014 (3.2% of GDP). However, this excess is considered as *exceptional* due to the statistical reforms resulting from the transfer to ESA 2010, and as *temporary* because the 2015 deficit is estimated at 2.6% of GDP. At the end of February 2015, the European Commission did not recommend the launching of an excessive deficit procedure.

As for the debt, Belgium had to improve its structural balance by 0.7% of GDP in 2014 in order to meet the MLSA. This appeared to be impossible because the structural balance deteriorated by 0.1% of GDP in 2014. Yet, the debt ratio will be reduced thanks to the progress made with a view to achieving the medium-term objective and the structural reforms envisaged by the government. As in the case of the deficit criterion, the European Commission did not recommend the launching of an excessive deficit procedure.

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[5] See the National Bank of Belgium's list of public sector entities updated on 30 September 2014: http://www.nbb.be/DOC/DQ/F_pdf_PDE/PDE_liste_NL.pdf

The most recent NAI estimates (EDP notification of April 2015) depart from a deficit coming to 3.2% of GDP in 2014.

Table 13: Budget balance 2012-2014

In % of GDP	2012	2013	2014	
	Outcomes	Outcomes	Stability programme	Outcomes
General government	-4.1	-2.9	-2.1	-3.2
Entity I	-3.5	-2.5	-2.3	-2.7
Federal government	-3.4	-2.4	-2.3	-2.6
Social security	-0.1	-0.1	0.0	-0.1
Entity II	-0.6	-0.4	0.1	-0.6
Structural balance	-2.9	-1.9	-1.4	-2.8

3.5. Budget 2015

3.5.1. Overall objective

The draft budget plan retained a structural balance of -1.3% of GDP for 2015, which corresponds to a nominal balance of -2.1% of GDP. The nominal balance was estimated at -1.9% of GDP for entity I and -0.2% of GDP for entity II. In the general commentary on the 2015 budget, a structural improvement of 0.7% of GDP for entity I and a status-quo for entity II were assumed.

The general government's objective is now fixed at a structural balance of 2.0% of GDP and a nominal balance of -2.5% of GDP. The nominal balance is estimated at -2.0% of GDP for entity I and -0.5% of GDP for entity II. The structural improvement comes to 0.62 % of GDP for entity I and 0.10 % of GDP for entity II.

Below are given the results of the budgetary control effected by the federal government and some of the Communities and Regions.

3.5.2. Entity I

Further to the budgetary control at the end of March, the federal government re-assessed the budgetary figures for 2015, which lead to a number of adjustments. On the one hand, the cause can be found in the economic growth being lower than expected (1.2% according to the latest data of the Federal Planning Bureau, and not 1.5% of GDP growth estimated while drawing up the budget). On the other, account was taken of the most recent report of the High Council of Finance which determines and allocates the budgetary effort for the near future. In that opinion, it is determined that the budgetary effort for 2015 requires a structural improvement of 0.6% of GDP.

The federal government endorses the High Council of Finance's path and even made a slightly stronger effort than planned by the High Council of Finance, which consisted in a structural improvement of 0.62% of GDP in respect of the 2014 budgetary result. Table 14 provides a survey of the budget development.

The year 2014 was closed with an estimated structural deficit of -2.34% of GDP. Therefore, the improvement of 0.62% of GDP that was planned, implies that the 2015 budgetary result must end in a structural deficit of 6.9 billion euros. Given the cyclical correction of 2.3 billion euros, the non-structural adjustments for a total amount of 1.5 billion euros and the transfer corrections of 370 billion euros copied from the High Council of Finance's opinion, the nominal balance closing 2015 must amount to -8.1 billion euros.

The Monitoring Committee scheduled in its note dated of mid-March that the 2015 nominal balance would amount to -9.252 million euros. This amount was taken as starting point for the budgetary discussions after correcting a number of technical factors:

- the economic growth adjustment: the Monitoring Committee's calculation was based on a 1% GDP growth while the most recent report drawn up by the Federal Planning Bureau foresees 1.2% (impact +256 million euros);
- the National Bank dividend being lower than expected: non-fiscal receipts are 301 million euros lower. This is slightly compensated by a larger advance payment made by the National Bank, which results in 60 million euros of additional tax receipts;
- update regarding the transfers to the Regions: in the light of the sixth State reform, part of the donations granted to the Regions have been replaced by regional fiscal autonomy, which resulted in the Regions deciding themselves whether to impose higher or lower surcharges on the so-called "State tax". Further to the recent recalculation of the "State tax", the payment to the Regions is 750 million euros less than originally expected. The federal government charged 375 million euros of that amount in order to improve its balance. The other 375 was partially kept as a buffer, more specifically 185 million, while the remainder, being 190 million, was considered to be a non-structural bonus.

Table 14: Conclave survey

	In € billion	In % of GDP
Structural deficit to be obtained (-1.68% of GDP)	**-6.90**	**-1.68**
Cyclical correction	-2.31	-0.6
Correctional transfers HCF	-0.37	-0.1
Non-structural effects and measures	1.49	0.4
Nominal balance to be obtained	**-8.09**	**-2.0**
Starting point of the nominal balance	-9.25	-2.3
Correction	0.26	0.1
Dividend NBB	-0.24	-0.1
Adjustment payment to the Regions	0.57	0.1
New policy	-0.44	-0.1
Measures to be taken	-1.02	-0.2
Receipts	0.47	0.1
Expenditure	0.55	0.1

After making the aforementioned technical corrections, 584 million euros remain for measures to be taken in order to keep the 2015 budget on course. This amount must be increased by 435 million euros as additional expenditure for which the government provides means, making the total effort worth 1,019 million euros.

As for the receipts, the following decisions are striking:

- the fight against tax fraud will be intensified, leading to an estimated surplus of 100 million euros. This mainly concerns the taxpayers' spontaneous report of incomes not declared in due time (70 million euros) and the more stringent control on the abuse of corporate structures (23 million euros);
- the accelerated introduction of the Cayman tax applying on tax constructions should yield 50 million euros extra for 2015 via advance payments;
- as for the diamond industry, the corporate income tax reform into a tax on turnover will yield 50 million euros on top of the tax receipts that had already been estimated for this sector;
- a 10% advance taxation is implemented for small and medium-sized enterprises on the financial profit after taxation made in financial years 2012 and 2013, to the extent that it will be included in the special liquidation bonus. Both in 2015 and 2016, this measure will yield 236 million euros (non-structural).

Expenditure is cut as for primary expenditure (100 million euros) and operational expenditure for Social Security (45 million euros). Part of the envelope that was originally available for the social correction of the index jump, was used to increase the net pay of the lowest income categories. The interdepartmental provision is reduced by 67 million euros. As a consequence of the persistently low interest rates, interest expenses are estimated to be 80 million lower. The means available for risk groups are used in another manner with a view to creating starter jobs (jobs for youngsters involving on-the-job training). In 2015, this should lead to 8,000 additional jobs, having a total budgetary impact of 80 million euros, being avoided expenditure and additional receipts. Moreover, measures to enable night work in the e-commerce sector and so-called flexi-jobs (extra income exempted from tax) as well as the cheapening of extra hours performed in the catering sector, must lead to the creation of extra jobs, resulting in a total positive budgetary impact of 24 million euros.

As for new expenditure, the key aspects consist in a more efficient administration and the clearing of arrears in the Justice department (100 million euros each). A new interdepartmental provision (for an amount of 200 million euros) will be implemented for non-structural expenditure (one-shot) that is mainly related to safety. Apart from that, 30 million euros are provided for measures to support business start-ups. This is a tax shelter providing a tax reduction for investors in start-ups who keep their shares for at least four years and a dispensation from the payment of withholding tax on professional income for starters.

3.5.3. Entity II[6]

a) The Flemish Community

Budget balance and objectives

Based on the latest implementation figures, the Flemish Community 2014 budget is closed with a limited deficit of 681.6 million euros (0.17% of GDP). The objective consisting in reaching a balance, was not achieved. The reasons are the disappointing macroeconomic parameters (inflation in the first place), the utilization of appropriation expenditure being

[6] This section is based on the contributions from the various federated entities.

higher than expected, some one-off setbacks involving receipts and expenditure and the more stringent European budgetary control.

When the 2015 budget was drawn up, a balanced budget was submitted. Mainly because of the disappointing growth, a new (federal) estimate of the Flemish surcharges and an adjustment of the under-utilization hypothesis to the actual realizations in the previous years, it appeared that a budget balance was no longer possible if the policy remained the same. Apart from these setbacks, there were also some windfalls (namely the reduction in expenditure due to the lower inflation outlook). However, it appeared from the update of the data that a deficit of approximately 900 million euros (0.22% of GDP) would arise if the policy was not changed.

Through a number of structural measures (147 million euros or 0.04% of GDP), one-off measures (149 million euros or 0.04% of GDP) and a reform of the donation duties (57 million euros or 0.01% of GDP), the Flemish government decided to limit the 2015 budgetary deficit to 548 million euros (0.13% of GDP).

By 2017, the Flemish government aims at obtaining a balanced budget and maintaining this until 2018.

Table 15:Measures taken with regard to the budgetary control

List of measures	**Detailed description**	**Objective**	**Component**	**Budgetary consequences (in € million)**				
					2015	**2016**	**2017**	**2018**
1.	Less expenditure for sludge processing (AMORAS)	-18.8	Expenditure		**18.8**	**18.8**	**18.8**	**18.8**
2.	Installation of sewers moves to Aquafin	-30	Expenditure		30	30	30	30
3.	Commission cancelled	-8	Expenditure		8	8	8	8
4.	Interest income through financing reform in social housing, welfare, Flemish housing fund	-24	Expenditure		24	24	24	24
5.	Other structural measures	-52.7	Expenditure		52.7	56.4	56.4	56.4
6.	One-off actions	-68.4	Expenditure		68.4	0	0	0
7.	Patrimony valorisation	81	Receipt		81	0	0	0
8.	Reform in donation taxes	56.8	Receipt		56.8	113.6	113.6	113.6
9.	Equal treatment of disposal fees	14	Receipt		14	27	27	27
				Total	353.7	277.8	277.8	277.8

b) The French Community

Objective of the 2015 adjustment

The initial 2015 budget departed from net financing requirements of 170 million euros for the French Community.

Measures were taken in order to limit the deficit and to enable the gradual return to a balance. The proceeds of these measures were estimated at 140 million euros in 2015.

The circular announcing this 2015 adjustment was approved by the government of the French Community on 26 February 2015. The adjustment aimed at evaluating the impact of the new estimates of macroeconomic parameters from the economic budget of 12 February 2015 on the 2015 receipt estimates and appropriation expenditure in order to compare the results with the budgetary objective fixed by the government when it drew up the initial budget.

The deterioration of macroeconomic parameters had a strong impact on the receipts of the French Community (reduction of 215 million euros).

The government verified the implementation of all measures aimed at limiting the budgetary deficit that were decided on in October 2014 by the various departments, and found that the objective consisting in 140 million euros of efforts has been achieved.

Despite the sharp fall of the institutional revenues, the government's measures (monitoring, verification and recalculation of all expenses) limited the deterioration of the net financing requirements while maintaining the service to citizens and job guarantees.

The French Community's budgetary objective, as estimated at the end of April 2015, departs from net financing balance of 251 million euros in 2015.

Indicative path:

For information, in its majority agreement, the government of the French Community fixed the following path for the years 2016 up to and including 2018:

	2016	2017	2018
Nominal balance in million euros	-100	-30	0

This path - outlined on the basis of the June 2014 macroeconomic parameters and therefore to be updated on the basis of the parameters of the adjusted 2015 budgets - will be re-analysed when drawing up the initial 2016 budget, which will take account of the deterioration of macroeconomic parameters, unpredictable exogenous elements that might have an impact on the receipts of our institutions and the fact that the High Council of Finance calculated an alternative path for the Walloon Region as for 2016-2018.

c) Walloon Region

Budgetary result 2014

According to the accounts published on 17 April 2015 by the National Accounts Institute, the 2014 result of the Walloon Region amounted to -468 million euros.

However, the impact of the balance of the economic reclassification is presently being investigated by the NAI.

Objective of the 2015 adjustment

The drawing up of the 2015 budget assumed a budgetary deficit of 448 million euros (0.11% of GDP) according to the ESA methodology. At the time of the budgetary adjustment, the Walloon government found it impossible to achieve the original budgetary objective.

The deterioration of the macroeconomic parameters, but mainly the sharp fall of the advance on personal income tax receipts by 9% (247 million euros) carried through by the federal government without prior consultation, cannot be compensated without causing any socio-economic damage to the Region.

So the deficit in case of an unchanged policy increased from 448 million euros in the initial budget to 890 million euros at the time of the adjustment based on the federal government's new receipt estimates.

The government carried through an adjustment of 205 million euros in order to reduce its deficit to 685 million euros (0.17% of GDP). Since this concerns a budget adjustment, the government mainly made technical corrections and better estimates of the result to be expected from the institutions included in the Walloon consolidation scope.

Adjustment 2015:	
Technical corrections:	+90
Balance economic reclassification	+53
Receipts	+39
Reduction of the expenses	+40
Total efforts	**222 million euros**
Additional expenditure	-15.7
Net total	**206.3 million euros**

Below you will find detailed measures regarding additional receipts:

- the positive results of companies which capital is fully or partially held by the Walloon Region: +28 million euros;
- the increase of some waste processing degrees: +2.5 million euros;
- cut timber sale: +3 million euros;
- Medico-social services' result was better than expected: +4.5 million euros.

As for the expenditure limitation, the savings were made by:

- the flattening of investments: 10 million euros;
- the reduction of various costs (administrations, subsidies and studies): 30 million euros, as a result of:
    - the lower number of terrains purchased by the Walloon housing company;
    - costs of lawyers;
    - subsidies for water management;
    - agricultural subsidies;
    - infrastructure pole;

- bonuses for economy and investigation;
- an active debt management.

Estimated path

In its majority agreement of 18 July 2014, the government of the French Community fixed the following path for the years 2016 up to and including 2018:

	2016	2017	2018
Objective in million euros	-300	-150	0
Objective in % of GDP	-0.07%	-0.04%	0%

This path will be re-analysed when drawing up the initial 2016 budget, taking account of the deterioration of macroeconomic parameters, unpredictable exogenous elements that might have an impact on the receipts of our institutions and the fact that the High Council of Finance calculated an alternative path for the Walloon Region as for 2016-2018.

The Walloon Region's nominal objective for 2015 comes to -0.167% of GDP. It is only this 2015 objective that is formally the object of this stability programme. The coalition agreement does not provide any budget surplus for 2018.

d) Brussels Capital Region

Based on the latest estimates by the National Accounts Institute, the Brussels Capital Region closed budget year 2014 with a nominal surplus of 92 million euros. That is a considerable improvement (+86 million euros) compared to the 6 million euros objective that was agreed on. It is the second consecutive year that a surplus has been achieved and for the third consecutive year, the budgetary objective has comfortably been achieved.

The Region was able to achieve this balance despite the reclassifications carried through by the NAI in 2014. As for the 2014 budget control, the government made a considerable effort to set off the impact of these classifications.

The initial 2015 budget was submitted with a nominal balance in conformity with the Brussels coalition agreement which foresees in a balanced budget for the term 2014-2019.

The Brussels government did not make any adjustments to the 2015 budget yet. The government awaits additional information based on the adjusted estimates of the regional personal income tax that have been communicated and the formal confirmation of the estimates as far as the transitional amount is concerned. The March 2015 internal budget control does not require any adjustments.

At present, the reduction of personal income tax receipts communicated by the federal government on 26 March has not been registered in the budget by the Brussels Capital Region because of the persistent incoherence of these data. This point of view will be maintained in anticipation of clarifications and inter-federal consultations on the size of the divergence between the estimates of the initial budget and the budget control and on the necessity to perform a thorough integral control calculation, the result of which will be discussed with the Federal Planning Bureau and the High Council of Finance by this summer.

The Brussels government holds on to the budgetary multi-annual objectives included in its coalition agreement and based on the initial estimates. Each budget or budgetary adjustment in the Brussels Region is aimed at exclusively considering divergences that positively affect the objective. This goal is also achieved, as shown in the table below:

2010			2011			2012			2013			2014		
REAL	Norm	difference	REAL	Norm	difference	REAL	Norm	difference	REAL	Norm	difference	REAL	Norm	difference
-239	-313	74	-390	-313	-77	-55	-213	158	119	-132	251	92	6	86

The results of previous years show that the Region applies a careful, responsible and correct budget policy in compliance with the inter-federal agreements and in conformity with the new ESA 2010 rules. The path indicated in this stability programme for the Brussels Capital Region is certainly achievable.

e) French Community Commission

The budget target of the French Community Commission is the maintenance of the balance. At this stage, there are no plans for a budget adjustment. An audit limited to the statement of revenue and expenditure of 2015 is planned.

As a rule, an underrun level of the credits of 1.5 % is observed and applied when establishing the initial budget. This underrun level is confirmed when implementing the expenditure 2014.

f) German-speaking Community

The fiscal policy of the German-speaking Community is part of both the fiscal policy of Belgium which principally aims at reducing deficits, and the context of the European obligations arising from the program's Six pack and Two pack.

Previous history

At the moment of the first adjustment of the budget 2014 of the German-speaking Community, and thus before the amendment of the law on institutional reforms of the German-speaking Community was adopted, a long-range simulation was presented to Parliament. The result showed a balanced budget for the years 2015 to 2019. The German-speaking Community also stated its willingness to make an increased "responsibility contribution" for the pensions of the officials, as well as an additional contribution of €2.13 million in 2015 and over €4.3 million per year as from 2016 in order to reorganize the federal budget. In its calculations, the German-speaking Community had also prepared and fitted in the necessary measures to introduce more radical savings than required.

The following measures were achieved by Parliament or the government of the German-speaking Community with a view to a balanced budget as from 2015:

- reduction of the total payroll by 1 % of the salary scales of the staff of the German-speaking Community, including the teaching staff, as of 1 January 2013;
- reduction of the total payroll by 1 % of the salary scales of the staff of the German-speaking Community, including the teaching staff, as of 1 January 2014;
- restriction of the increase of appropriations to municipalities to the evolution of the index for the years 2013 and 2014;
- freezing of allowances and appropriations to public interest bodies;
- reduction of expenditures in several areas;
- reduction of expenditures for allowances to different infrastructures;

Initial budget of 2015

The consequences of the Law of 19 April 2014 amending the law on the institutional reform concerning the German-speaking Community are crucial and pernicious to the budget of the German-speaking Community. As a consequence, the German-speaking Community will not be able to balance the budget.

The deficit with respect to the initial budget of 2015 was estimated at €30 million and consisted of the following elements:

- €7 million: under-financing as a result of the sixth state reform, including €2 million of additional contribution for the reorganization of the federal budget;
- €2 million as a result of a deterioration of the economic parameters;
- +/- €21 million: one-off transaction: conversion of a number of existing alternative financing arrangements of the municipalities and Social Service Departments in projects with a direct allowance from the German-speaking Community in order to <u>consolidate the public finances of the municipalities according to the ESA standards in the future</u>, combined with the intention to <u>save on interest charges</u> in the years to come.

First adjustment of the budget of 2015 following a budget review

The first adjustment of the budget of 2015 of the German-speaking Community assumes that the estimated deficit will increase from +/- €11 million to €41 million.

This increase consists of the two following elements:

- Reduction of revenues by €3 million as a result of the downward adjustment of the economic parameters.

  NB: When the initial budget of 2015 was calculated, the German-speaking Community had already made a more careful estimate, based on more negative parameters than the forecasts of the Federal Planning Bureau, and in particular on a GDP growth of 1.0 % (instead of 1.5%). If the German-speaking Community had not done this, it would have been forced to make larger adjustments as a result of the new parameters.

- Additional on-off measures: conversion of a number of existing alternative financing arrangements of different operators in projects with a direct allowance from the German-speaking Community in order to lighten the budgetary path of the years to come. €8 million NB : If the German-speaking Community had not taken some existing alternative financing arrangements in advance, the NAI would have been forced to consider an accounting reclassification of these projects as a result of the strict application of the new accounting rules of the ESA 2010.

In the years to come, the German-speaking Community will engage in an extensive dialogue with all policy and social partners of the community in order to increase revenues and to reach a consensus on socially sustainable economy measures. Subject to a correction of a technical error in the budgeting of the transfer of competences, the German-speaking Community will be able to achieve its balanced budget target in ESA terms in 2018.

	2015	2016	2017	2018
Nominal balance	-41,546	-44,443	-36,276	0
Structural balance	-38,980	-42,187	-34,237	1,669

4. Sustainability of public finances

4.1. Structural reforms

The medium- and long-term sustainability of public finances constitutes a major challenge, the main factor being the impact of ageing on the budget. In its recommendations to Belgium of July 2014, the Council of the European Union confirms the importance of this problem and invites Belgium "to control the future increase of public expenditure with regard to ageing, and in particular for pensions and long-term care", particularly by "closing the gap between the actual and statutory retirement age". The coalition agreement of 9 October 2014 takes account of this recommendation and announces several reforms, in particular with regard to pensions, health care and employment. The main reforms are listed in Chapter 5 of this stability programme. The main aspects of that policy are discussed in the national reform programme of 2015.

The following paragraphs mainly refer to the reforms with regard to social security (pensions, unemployment with a company supplement and health care).

4.1.1. Reforms carried out by the government

It should first be pointed out that the coalition agreement proposes the securing of social security financing as an objective of the term. For this purpose, the stimulation of the economic growth (in particular via the labour market) and the reorganization of public finances (in particular via reforms of the pension schemes and health care) are essential elements.

The coalition agreement indicates the necessity to implement "structural reforms" which sufficiently contribute to the long-term sustainability of public finances, […] via a pensions reform. With a view to postponing the retirement, reforms have been carried out with regard to the increase of the statutory retirement (from 65 to 66 in 2025 and to 67 in 2030), the career condition to early retirement (new career path to be eligible for early retirement as from 2017), the survivor’s pension (will only be awarded as from the age of 55 as from 2025), the maximum admissible employment activity (in certain cases the abolition of the maximum admissible professional income, in combination with a retirement pension),...

In order to interpret the long-term problems, the chapter with regard to the quality of public finances provides more details on the thorough reform of the pension scheme, as mentioned in the coalition agreement. Reforms are carried out in order to limit the appeal to unemployment with company supplement. To that end, the age condition has increased from 60 to 62 years old for all new unemployment schemes with company supplement, collective agreements and collective agreements 17 as from 1 January 2015. For companies in difficulty or restructuring companies, the age condition will gradually increase to 60 years old by 2020. For heavy professions, the age condition has increased to 58 years old in 2015. The age condition will be further increased to 60 years old as from a date established after an opinion delivered by the National Labour Council. With regard to the unemployment scheme with company supplement of companies in difficulty or restructuring companies as well as the unemployment scheme with company supplement of heavy professions, the social partners have the opportunity to conclude executive collective agreements.

The seniority supplement for older unemployed people has been abolished for the new entrants as from 1 January 2015 and the allowance for unsubstantiated time credit and career interruption will be abolished.

In the coalition agreement, an extensive chapter is devoted to health care in which the necessity to offer qualitative, affordable and accessible health care is laid down. The coalition agreement stipulates that mainly "a thorough reform of diverse aspects of the structure of our health care" will be emphasized. For instance, from the beginning, the government has decided to change the real growth target of health care and to reduce it from 3 % to 1.5 %. Other reforms with regard to health care have been planned as well (financing of hospitals, ...). They will be carried out according to the principles of the "*evidence based practice*", by making the different players in this sector assume more responsibility.

4.1.2. The long-term budgetary impact of ageing

One of the purposes of the different reforms which have been announced and carried out by the government, is to withstand the budgetary cost of ageing, which is defined as the rising of the total amount of social expenditure over a certain period.

The structural reforms approved by the new government in the autumn of 2014 are not taken into account in the estimate of the cost of ageing presented in the 2014 Ageing Report of the

Study Committee on Ageing. This remark is also applicable to the prospects of the *Ageing Working Group* with a view to the publication of the "*Ageing Report 2015*", which do not take into account the last reforms of the Belgian government. The Federal Planning Bureau has published a report[7] which does take into account the different measures which have been taken by the government, for instance:

With regard to pensions:

- the gradual increase of the age condition for early retirement (in summary, the age condition is increased from 62 to 63 years old and the career condition from 40 to 42 years old);
- the increase of the legal retirement age to 66 years old in 2025 and to 67 years old in 2030;
- the gradual increase of the minimum age for the survivor's pension to 50 years old in 2025 and to 55 years old in 2030;
- the abolition of the diploma bonus for the career condition of the early retirement (in the pension scheme of the civil service);
- the abolition of the pension bonus;

In the unemployment scheme with company supplement:

- the gradual strengthening of the eligibility criteria for unemployment with company supplement;
- the gradual generalization of the obligation for unemployed persons with company supplement to search for a job;

With regard to unemployment (including career interruption and time credit):

- the abolition of the seniority supplement and the allowance for unsubstantiated time credit;
- the reduction of certain allowances;
- the reduction of the age to file an application for an integration allowance and the introduction of a minimum diploma requirement for young people under the age of 21;

[7] Federal Planning Bureau, The budgetary consequences for Belgium of ageing by the year 2060, March 2015

- the limitation of the number of temporary days of unemployment per employer;
- the increase of the age for the first applications for half-time or part-time time credit for seniors;

With regard to health care:

- savings mentioned in the policy plan Health Care of November 2014, for instance with regard to the pharmaceutical industry, the patient contribution with specialists, ...

With regard to inability to work

- stricter procedures for the granting and the control, introduction of a rehabilitation programme after three months of primary inability, ...
- abolition of new beneficiaries for the increase of the RIZIV/INAMI allowances for disabled unemployed persons;
- as from 1 January, calculation of the RIZIV/INAMI allowances of the new beneficiaries on the basis of the average salary during a 12 months' reference period preceding the inability to work (instead of the last salary received).

In order to reinforce the approach of the Federal Planning Bureau, it should be mentioned that the government has accepted different pre-draft laws and a draft Royal Decree at the council of ministers. These legislative texts include areas such as the increase of the statutory retirement and the continuation of the reform with regard to the early retirement. Other measures decided upon by the government, have not been taken into account in the aforementioned report, for either technical reasons, or due to the uncertainty related to its implementing provisions.

According to the baseline scenario to which the report of the Federal Planning Bureau refers, total social expenditure will increase from 25.3 % of GDP in 2014 to 27.4 % in 2060, putting the fiscal cost of ageing at 2.2 % of GDP between 2014 and 2060. By way of comparison and for the purpose of emphasizing the impact of the measures decided upon by the government: the report of 2014 of the SCA was based on a fiscal cost of ageing of 4.2 % of GDP between 2013 and 2060. The items pensions and health care explain this evolution to a large extent. The positive evolution between the report of the SCA in July 2014 and the report of the Federal Planning Bureau in March 2015 can almost entirely be explained by the decrease of the fiscal cost of ageing related to the pensions, as a result of the reforms which have been decided upon by the government. However, it should also be taken into account that the demographic forecasts which are presented in the report of the Federal Planning Bureau are more favourable than the forecasts from the SCA report of July 2014, to such an extent that they are marked by a small increase in the old-age dependency ratio.

Table 16: Budgetary implications of ageing

Components of the fiscal cost of ageing	2014	2020	2040	2060	2014-2020	2020-2060	2014-2060
Pensions	10.4	11.0	12.9	12.8	0.6	1.8	2.4
Employees	5.6	6.1	7.3	7.2	0.5	1.0	1.5
Self employed	0.8	0.9	1.1	1.0	0.1	0.2	0.2
Public sector	3.9	4.0	4.5	4.6	0.1	0.6	0.7
Health care	8.0	8.4	10.0	9.8	0.4	1.4	1.9
Inability to work	1.7	1.9	2.0	1.5	0.1	-0.4	-0.2
Unemployment	2.3	1.7	1.1	1.1	-0.6	-0.6	-1.2
Family allowance	1.6	1.4	1.2	1.1	-0.2	-0.3	-0.5
Other social expenditures	1.3	1.3	1.3	1.2	0.0	-0.2	-0.2
Total amount	**25.3**	**25.7**	**28.5**	**27.4**	**0.4**	**1.7**	**2.2**
p.m. Salaries granted to the teaching staff	3.9	3.7	3.7	3.7	-0.2	0.0	-0.1

Source: Federal Planning Bureau, The budgetary consequences for Belgium of ageing by the year 2060, March 2015, p. 13

4.1.3. Political strategy

Budgetary fiscal policy has always been a key element of the Belgian strategy for withstanding the budgetary impact of ageing. However, that is only one of the elements of the Belgian government's strategy, which is based on three fundamental lines of force.

The government has chosen to make gradual progress towards balanced public finances while safeguarding economic growth. The different levels of governments have undertaken to reach a balanced budget. The reduction in the debt ratio which must ensue from this, should enable a decrease of future interest charges, so that the margin available can be used to cover the rising expenditure on social protection.

The second line of force relates to the economy and concerns boosting the employment rate and stimulating production potential. A higher number of employed persons means that the cost of funding social expenditure is more evenly spread.

The third line of force of the Belgian strategy for withstanding ageing consists in reforming social security in order to consolidate a strong, affordable social security system based on solidarity.

These three strategic axes are interdependent as the progress made on one axe, reinforces the other two. For instance, the structural reforms with regard to pensions and the labour market which are presently being carried out by the government, incite people to work more, they revalue labour and they should lead to a considerable increase of the employment rate and to a decrease of the fiscal cost of ageing (cf. supra). At the same time, the reforms consolidate the future of the pension system by redistribution and ensure a more equitable system as regards employees.

4.2. Contingent liabilities

Apart from other factors, the sustainability of public finances is determined not only by the government's firm commitments, but also by the contingent liabilities. These contingent liabilities are not part of the public debt and only represent a potential debt. When guarantees are called, they trigger capital transfers which then have an adverse impact on the fiscal balance and therefore on the public debt.

4.2.1. Entity I

So far, the federal government has never had to make any payments under a guarantee agreement concluded with a financial institution during the crisis.

Since 2008, against the backdrop of the financial crisis, the federal government has granted guarantees covering both interbank borrowings by Dexia and risky structured assets of miscellaneous financial institutions. In the course of 2014, the total outstanding net amount guaranteed in favour of financial institutions of €45.36 billion to €37.56 billion decreased by refunding the amounts guaranteed or by suspending the guarantee system. Under the terms of the guarantee system of 2008, the last guaranteed loan of Dexia was refunded on 28 May 2014 (outstanding amount of €5.88 billion at the end of 2013) KBC (outstanding guarantee amounting to €4.70 billion at the end of 2013) wounded down the last two guaranteed structured assets in the form of *Collateral Debt Obligations* (CDO) in September 2014. The guarantee agreement in favour of Ageas (outstanding amount of €890.9 million) with regard to Fortis RPN CASHES was suspended on 31 March 2014.

At present, only the guarantee system of 2011/2013 in favour of Dexia is still in force, for a maximum amount of €85 billion in which Belgium holds a share of 51.41 % (almost €43.7 billion). Belgium's exposure to Dexia amounted to €37.56 billion at the end of 2014, against €33.90 billion at the end of 2013. This amount increased as additional loans were taken out due to the increased need for '*cash collateral*' as a result of the decreased interest rates. The outstanding amount of the State guarantee in favour of Dexia amounted to 37.28 billion on 6 April 2015, which was slightly lower than the amount at the end of 2014. As matters stand at present, pursuant to the prospective risk analysis of the Administration of the Treasury, there is no risk that, within two years, an appeal will have to be made to the State guarantee in favour of Dexia, the residual bank, whose orderly resolution is presently put in place. The financial situation of Dexia which is regularly being monitored, appears to have been stabilized.

Apart from the guarantees granted in the context of the financial crisis from 2008 onwards, roughly, the debts of institutions or firms whose debt service is guaranteed by the federal State have been declining. At the end of 2014, the amount of debt guaranteed by the federal State – including small continued debts relating to school buildings for the French Community and the Flemish Community from before 1988 - amounted to €3.67 billion. Thus, at the end of December 2014, the total amount of debt guaranteed by the federal State came to €41.2 billion, or 10.25 % of GDP. That is significantly lower than the end-2013 figure (€49.9 billion or 12.63 % of GDP), despite the slight increase in Dexia's guarantee debt. It should also be noted that this amount does not include the amounts which are guaranteed by the deposit guarantee scheme managed by the Special Protection Fund for deposits, life insurances and capital of approved cooperative societies, a function which is exercised by the Deposit and Consignment Office of the Administration of the Treasury.

In return for the grant of the guarantees (*service fee*) during the financial crisis, the federal government received €728.9 million in 2011, €749.1 million in 2012, €541.9 million in 2013 and €371.0 million in 2014 from the financial institutions, on the basis of recorded rights.

According to the latest estimates, these non-fiscal revenues will come to €53.3 million for this year. This significant decline in the past few years is due to a decline of the outstanding amount of state guarantees and to the fact that, as from 2015, only the guarantee in favour of Dexia remains, which only pays a very small consideration in return).

To complete the picture, it should also be noted that Belgium, as a Member State of the euro area, also guarantees the loans from the European Financial Stability Facility (EFSF) in proportion to its share in the ECB's capital (3.72 % at present). These guarantees are not included in the "*contingent liabilities*" because the EFSF loans are recorded by Eurostat in the consolidated gross public debt. At the end of 2014, the impact of the EFSF assistance increased the Belgian public debt by €7.03 billion (or 1.75 % of GDP) in cumulative terms over 2011, 2012, 2013 and 2014. The function of the EFSF was taken over by the *European Stability Mechanism* in October 2012.

Finally, it should be mentioned that the Regions and Communities have also granted guarantees. Pursuant to Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States, these are also published alongside the State guarantees. These guarantees are mentioned below.

Table 17: Contingent liabilities (federal State only)

Contingent liabilities (In % GDP)	**End 2014**	**2015 (1)**
Guarantees	10.25	8.00
Including the financial sector	9.34	7.02

(1) For French Community and Flemish Community school buildings, the position regarding a historical debt applies as at 31 December 2014.

4.2.2. Entity II[8]

a) Flemish Region

The total amount of the guaranteed debt of the Flemish Region as at 31/12/2014 came to €12.2 billion (3.1 % GDP).

The list of debts guaranteed by the Flemish Region is diverse, but it can be divided into three main categories: 1) (local) public authority guarantees; 2) asset-backed guarantees; 3) economic guarantees.

The breakdown of the list into these three categories accurately reflects the risk profile of the guarantees granted. The first group consists of (local) public authority guarantees. The risk incurred by the Flemish government on these guarantees is limited, as they are granted to local authorities or to agencies which are independent of the Flemish government to some degree. In the first place, this category is subsidised by the Flemish government. In addition, the Flemish government generally has a supervisory role via the government commissioners (agencies) or the Domestic Administration Agency ("Agentschap Binnenlands Bestuur", which is the body responsible for local authorities). This means that the Flemish government can monitor and sometimes even influence the financial situation of these players. The latter are often actually included in the consolidated debt position of the Flemish government or local authorities. Debt in this category as at 31/12/2014 came to €900 million.

The second category of guarantees granted by the Flemish government is backed by the underlying assets. Generally, the Flemish government has sufficient collateral in this case to recover the bulk of the amounts guaranteed. In the majority of cases, that collateral consists of mortgages, which may or may not be first mortgages. However, in some cases, the Flemish government also guarantees the liabilities of companies without any direct link to their assets, e.g. the Flemish Social Housing Association (VMSW) and the Flemish Building Fund (VWF). The financial health of entities receiving these guaranteed loans is monitored by the Flemish government so that any financing risks can be detected in time. This also limits the

[8] This section is based on the contributions of the different federated entities.

risk of losses associated with guarantees in this category. Debt in this category as at 31/12/2014 came to €10.4 billion.

A third category concerns the guarantees granted to businesses to boost the economy and innovation. This is the category involving the most risks for the Flemish government. Here, the guarantee hardly ever covers the whole 100% of the loan. It is true that pari passu agreements are concluded with the banks in many cases, and that the guarantee can only apply after the use of all collateral (including personal assets). Debt in this category as at 31/12/2014 came to €900 million.

Due to the expansion of the government perimeter by the National Accounts Institute, a number of important players in the housing sector who receive guarantees from the Flemish government, have been reclassified in 2014. The alternatively financed investment schemes of the VIPA (Flemish Infrastructure Fund for Matters relating to Individuals) have also been reclassified, as well as the project "Scholen van Morgen" (Schools of Tomorrow). This is why these players are not only included in the guaranteed debt of the Flemish government, but also in the consolidated debt. As a result of this reorganization, the possibility whether or not it would be better to finance the institutions that grant guaranteed loans in another way, is presently being examined. To that end, the Flemish government would conclude loans on the capital market itself. After all, a guaranteed loan is in in principle slightly more expensive than a direct financing by the Flemish Government.

As a result of the objectives formulated in the land and buildings policy for the housing sector, the project Scholen van Morgen and the VIPA in the welfare sector, the consolidated debt of the Flemish government will rise in the years to come. At the end of 2014, the consolidated debt of the Flemish government amounted to €18.8 billion (number not yet definite).

b) French Community

The debt indemnified by the French Community has developed as follows over the last three years:

Amounts in €	**31/12/2012**	**31/12/2013**	**31/12/2014**
Promotion agreements	62,429,977.00	54,677,892.79	46,690,069.39
Loans based on credit facilities	0.00	0.00	0.00
Loans - Sports facilities	0.00	0.00	0.00
Total amount of other debts (Court of Audit) [1]	**62,429,977.00**	**54,677,892.79**	**46,690,069.39**
Community Guarantee Fund for School Buildings - free network [1]	426,641,871.26	462,405,882.44	463,920,145.55
Community Guarantee Fund for School Buildings - official network [2]	63,632,742.84	63,373,463.82	94,362,668.23
Total amounts School buildings [2]	**490,274,614.10**	**525,779,346.26**	**558,282,813.78**
RTBF long-term	81,711,888.49	80,278,974.00	79,066,759.00
RTBF short-term	5,700,000.00	0.00	0.00
Total amount RTBF[3] [3]	**87,411,888.49**	**80,278,974.00**	**79,066,759.00**
SLF - Bois St-Jean	22,774,122.77	22,121,394.57	21,437,400.69
Cinema Le Palace	917,834.51	3,192,792.61	6,679,451.16
Total amount of other guarantees [4]	**23,691,957.28**	**25,314,187.18**	**28,116,851.85**
Total amount of guarantees FC = [1]+[2]+[3]+[4]	**601,378,459.87**	**631,372,507.44**	**665,466,424.63**

[1] Autonomous service which has a reserve for a possible call on the guarantee & Guarantee on heritage.

[2] Principal debtors: municipalities and provinces .

[3] Debt subject to a double ceiling: the fixed assets' value and an absolute maximum of 125.4 million.

c) Brussels-Capital Region

The total amount of the guaranteed debt of the Brussels-Capital Region as at 31/12/2014 came to €2.6 billion.

The table below shows that since 1999, the annual rate of guarantee calls on the outstanding total has been extremely low.

Table 18: Call on the debts guaranteed by the Brussels-Capital Region

Year	Guaranteed debt (million EUR)	Call rate
1999	485	0.00%
2000	475	0.00%
2001	483	0.00%
2002	524	0.15%
2003	596	0.21%
2004	692	0.01%
2005	823	0.07%
2006	842	0.12%
2007	1,101	0.13%
2008	2,044	0.01%
2009	2,094	0.00%
2010	2,102	0.00%
2011	2,279	2.95%
2012	2,493	0.00%
2013	2,655	0.00%
2014	2,631	0.00%

Remark: in 2011, the call rate of 2.95 % is declared essential through the liquidation of the Gemeentelijke Holding [Local Government Holding]. This exceptional event was caused by the collapse of the market capitalization of the Dexia share which accounted for the major part of the assets of the Gemeentelijke Holding. The guarantee call was completely recorded in the Region's accounts. Nevertheless, the budget target for 2011 of the Region was achieved. The present portfolio of the debts guaranteed by the Region does no longer involve this kind of risk.

Evaluation and quantification of the present risk

Four entities represent over 80% of the debts guaranteed by the Region: the Brussels Regional Refinancing Fund for Municipal Cash Resources (FRBRTC), the Brussels Water Management Company (SBGE), the Brussels-Capital Housing Fund and Hydrobru (Brussels intermunicipal water company).

Our risk analysis with regard to the regional finances will therefore be limited to these entities.

For the FRBRTC, the Region grants its guarantee for the loans taken out by the Fund in order to finance the Tasks 1 (granting of loans to municipalities having financial difficulties), 2 (financial intermediation in favour of the municipalities) and 5 (support to the municipalities in order to finance their investments).

For the tasks 1 and 5, the Region takes full responsibility for the refund of the capital and the interest. For task 2, the FRBRTC enjoys a debt claim on the municipalities: these financial flows exactly match the amounts the Fund engaged to towards the banks. The financial assets of an equivalent amount therefore cover the debts guaranteed by the Region.

For the Housing Fund, the regional guarantee covers all loans taken out with banks with which it can grant mortgage loans to private parties. Because of the existence of such an item of income and an allowance which is granted by the Region every year, there is a very low risk of a guarantee call.

For the SBGE, the regional guarantee mainly involves the amounts due by the SBGE to the company Aquiris, the concessionaire of the Brussels sewage treatment plant. Revenues of the SBGE mainly consist of the income of the sanitation services which are invoiced by Hydrobru, as well as the regional subsidies. Therefore, this guarantee is of particularly low risk.

In 2014, the SBGE has taken out a loan of €100 million with the EIB. This loan is guaranteed by the Region but up to now, this there has been no guarantee call.

Finally, the Region guarantees a loan for Hydrobru with the EIB for the maximum amount of €210 million. Hydrobru's revenues come from the sale of water and sanitation contributions, two important elements for the water price. This price is presented by Hydrobru, but should be approved by the Government. Because of the stable and predictable nature of the items of income of Hydrobru, there is virtually no risk of a guarantee call.

At the end of 2014, Hydrobru has taken out a loan of €250 million with the EIB. This loan is guaranteed by the Region but up to now, this there has been no guarantee call.

Table 19: Contingent liabilities

Contingent commitments *In millions EUR*	2014	2015
Guarantees	2631	2756
including the financial sector	0	0

d) French Community Commission

The guarantees granted by the COCOF involve loans taken out by the Brussels French-speaking Institute of Vocational Training for a maximum amount of €6 million in 2012.

In 2013, the College approved the proposed registration of a mortgage and a site of which the owner is entrusted with a mandate by the COCOF, in order to guarantee a loan of €4,961,000 granted by the NPI HOPPA for the construction of a day centre and accommodation for disabled persons.

These guarantees are linked to assets. Therefore, they entail little risk for COCOF's budget.

e) German-speaking Community

Contingent commitments *In millions EUR*	2014	2015
Guarantees	0.40	0.40
including the financial sector	0.00	0.00

5. Quality of public finances

The continuation of a lasting reorganization of public finances in order to ensure sustainable, balanced economic growth remains an essential objective for the Belgian government. A credible budgetary reorganization strategy has been developed for that purpose.

Special attention is paid to employment. Next to the previously approved reforms of the labour market and pensions, new structural measures have been taken in order to stimulate the employment, in particular employment of the young and the elderly, and to strengthen the economy's growth potential.

The Belgian government has also committed itself to thoroughly reform the tax system. This reform has also been the subject of prior measures which have been taken in order to shift labour taxation to other sources of income. Thus, the tax system has a stimulating effect on employment and is also made more equitable by improving the contribution of the various income categories.

Moreover, priority is given to efforts to increase efficiency of public expenditure in order to achieve savings, offering both modern public services and public services of high quality to users. Strict monitoring of expenditure is also strengthened by establishing reduction rates for certain primary expenditure. Moreover, resources are being freed in favour of policy domains which are considered to be of the highest priority, such as justice or safety.

5.1. Promoting the employment of older workers

Despite an improvement, the employment rate of older workers in Belgium remains relatively low. New measures have been taken to extend their presence on the labour market.

The possibilities to leave the labour market for early retirement have been limited. The age conditions for the unemployment scheme with company supplement, previously called "bridging pension", have been further extended in order to reduce the use of this system. Since 2015, the age to be entitled to the unemployment scheme with company supplement (general system) has been increased from 60 to 62 for new entrants. For specific groups or for workers who have become the victim of a restructuring, derogations have been established.

The specific end-of-career time credit in the private sector has also been limited. This time credit offers the possibility to reduce the number of working hours until the retirement age. As from 2015, the time credit between 50 and 54 years old has been abolished and the age limit for new applications has been increased from 55 to 60 years old[9].

Moreover, the difference between the actual and statutory retirement age will be reduced by further strengthening the minimum age and career conditions to early retirement. The age at which early retirement is possible will be increased to 62.5 in 2017 and 63 in 2018. The career condition will be increased to 41 in 2017 and 42 in 2019.

In addition, the government has approved a preliminary draft law which establishes the increase of the statutory retirement age from 65 to 66 in 2025 and to 67 in 2030. In the long term, the government plans the introduction of a points system for the calculation of retirements by 2030, a system which will reflect the acquired pension rights correctly. Plans are made to establish a legal framework for the automatic adjustment of retirements or early retirements in accordance with the demographic and financial developments of the pension system and the increase in life expectancy, taking into account the heavy professions. The implementing provisions of the reforms will be discussed with the social partners within the National pensions committee.

Older unemployed persons will be urged to return to the labour market by abolishing the financial advantages and by means of activation policies. The seniority supplement for older unemployed people (persons older than 50 who have a professional history of at least 20 years and who have been unemployed for at least one year) has been abolished for new entrants. The principle of availability for the labour market of unemployed persons will gradually be extended to 65, by means of a scheme which will be adjusted to the special circumstances of this group and which will need to be realized by each region. The persons being entitled to the unemployment scheme with company supplement as from 2015, will have to accept personal support.

[9] A gradual abolition is planned for long careers, heavy professions and restructuring companies.

Since the stimulating effect of the pension bonus on the extension of the career has been limited, it has been abolished for people who did not meet the conditions to be entitled to this right at this date, as from 2015. In all other cases, the advantage is kept.

Working after the statutory retirement age will be kept encouraged. The combination of retirement and a job is facilitated because of the abolishment in 2015 of the maximum amount of permitted earned incomes for persons who have reached the statutory retirement age or who have a career of more than 45 year. In case of non-compliance with the conditions, the sanction is eased if the granted maximum amount is exceeded.

With regard to the pension calculation, from now on, additional pension rights can be built up by workers who continue their professional activities after having reached the reference career (namely 14,040 days), by abolishing the "standard 45-year career" principle.

The reform of the survivor’s pension will be pursued in order to eliminate the related employment traps. The amount of this pension depends on its combination with the maximum amount of the granted professional income. Consequently, beneficiaries can be urged to reduce their business activity or to leave the labour market. The reform consists of a gradual increase of the age at which the survivor' pension is granted, raising the age from 50 in 2015 to 55 in 2030.

A time-limited transitional allowance will be granted if the minimum age to be entitled to the survivor's pension is not reached. This allowance may be fully cumulated with the professional income, eliminating the employment traps.

5.2. Stimulation of the participation in the labour market

The participation in the labour market is encouraged by the reductions in fiscal and parafiscal levies on labour, for the benefit of both employers and employees, and as a result of modifications in the unemployment schemes, the sickness schemes and the disability schemes.

As a result of the rise of the flat-rate professional expenses, all workers receive a higher net salary since 2015, without the employers having to pay additional costs. The impact of this measure is more important for employees with lower wages, since the percentage of the deductible costs decreases as professional income increases.

The tax work bonus (tax relief) in favour of employees with low wages will be increased as from 2016. The increase of this bonus will be reflected in the calculation of withholding tax, immediately showing its impact. The percentage of the partial exemption from payment of withholding tax on professional income for night and shift work will also be increased in 2016. In 2016, both measures combine the increases which are established in the competitiveness pact of 2015 and 2017, in order to maximize their impact.

The employment of young people is also boosted because of the grant of additional resources for the starter jobs (jobs for young people with courses at the places of work). The creation of jobs in SMEs will be encouraged by increasing the exemption of employers' contributions for the first three jobs within these companies (€50 per quarter).

Moreover, the government plans on decreasing the basic rate of the employers' contributions by 25 % before the end of the term of office, for all employers, by using the budgetary resources of the flat-rate structural reduction and high wages, as well as the conversion of the general exemption from payment of withholding tax of 1 %. The contribution percentages of less than 25 %, in particular for the low wages, will not be modified. This measure aims at preventing losses for employers after the reform.

The catering business is supported by the abolition of the levies on overtime hours and the introduction of a flat-rate tax on occasional labour.

In order to boost the transition into full-time jobs, the "income guarantee" allowance system (allowance for unemployed persons accepting a part-time job) will be halved after two years of part-time work in combination with this allowance.

With regard to young people, the maximum age to be entitled to an integration allowance (flat-rate allowance for young people after their studies) will be reduced from 30 to 25 as from January 2015. As from September 2015, the right to integration allowances for young people who are less than 21 years old will be linked to obtaining a degree.

The calculation of the unemployment benefits and sickness and disability benefits has also been modified in 2015. From now on, this is based on the average wage which has been received during the reference period of 12 months before the application for the allowance. With regard to temporary unemployment, the allowance percentage will be reduced from

70 % to 65 % and a restriction of the number of days of economic unemployment per employer will be imposed.

For new entrants, the allowance for unsubstantiated time credit and career interruption has been abolished in 2015.

Reform measures aim at encouraging the re-employment of disabled persons according to their abilities. A re-employment plan will need to be developed 3 months after the start of the inability to work and if necessary, a re-employment guideline will be established. In addition, the award and control procedures with regard to sickness and disability benefits will be strengthened. Moreover, the increase of the sickness and disability benefits which is granted to unemployed persons who are unable to work, has been abolished for new entrants as from 2015.

Finally, the administrative sanctions with regard to unemployment and sickness and disability will be strengthened.

5.3. Support of companies' activities

The reductions in levies on labour, described in the previous section, contribute to the support of companies' activities.

In order to make Belgian companies more competitive, the government has undertaken to completely eliminate the wage handicap which Belgium suffers since 1996 towards the three neighbouring countries, before the end of the term. More measures should contribute to the achievement of these objectives: an index leap, the advancing to 2016 of the reductions in levies which were planned in the competitiveness pact of 2017, and a wage moderation over the period of 2015-2016.

The maximum margin for the evolution of the Belgian labour costs have been set respectively to 0 % and 0.5 % of the gross wage sum. This involves the total cost for the employer, including all levies. An additional envelope of 0.3 % will be granted for net increases in 2016, without additional costs for the employers. At the request of the social partners, the nominal value and the tax deductibility of meal vouchers will be increased. The maximum amount of the non-recurring result-related benefits which are exempted from tax, will also be raised.

An amendment to the 1996 "employment and competitiveness" law has been planned as well. The developments which have been observed in the last two years in neighbouring countries, shall have to be taken into account in order to determine the wage norm, and an automatic corrective mechanism for the established excesses will be applied.

Access to financing will also be simplified for new small companies (which have been established less than 4 years ago). As from July 2015, a tax relief will be granted to private persons investing in shares which recently have been issued by start ups. The relief will amount to 45 % for shares of micro-enterprises and 30 % for SMEs. Moreover, these companies will enjoy an exemption from payment of withholding tax (20 % for micro-enterprises and 10 % for SMEs).

Crowd funding will also be encouraged through tax credits, in particular on the basis of modalities which are similar to the tax relief for private persons.

5.4. Tax shift from labour tax to other types of income

At the budgetary level, the above-mentioned reductions in levies on labour are compensated for by the increase of other taxes or by the introduction of new taxes. Moreover, tax expenditure is limited due to the non-indexation of 2015 to 2018 of different tax reductions which are not related to labour.

Different measures are related to excise duties. From now on, these excise duties will be indexed yearly, taking into account the inflation and the competition risk (with the exception of excise duties on tobacco and beer [10]). Excise duties on diesel oil will also gradually increase in 2016 as a result of the application of the positive click system. The increase will be neutralized for diesel oil intended for professional use due to the reimbursement system.

The tax base for levying VAT will also be broadened. Since 2015, electronically supplied services, telecommunication services and broadcasting services which are carried out by

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10 Excise duties on tobacco will be adjusted in such a way, that the ad valorem excise duties will partially be replaced by specific excise duties. Non-indexation of excise duties will be compensated for by the increase of excise duties on wine.

European companies to private persons residing in Belgium, are subject to VAT in Belgium. As from July 2015, the VAT exemption for medical care with regard to surgery and treatments will be abolished for medical interventions of an aesthetic nature (except for treatments for therapeutic ends). In 2016, the application of the reduced VAT rate of 6% for services in relation to immovable property to private houses will be limited to houses of more than 10 years old, instead of 5 years, which is the case at present.

By increasing the tax on stock exchange transactions in 2015, the tax revenue from capital will increase.

Intermunicipal associations carrying out business activities and closing the financial year as from 1 July 2015, will be subject to corporate income tax. As a result of this submission, a loyal tax competition is ensured between the private and public sector and the revenue from corporate income tax will be increased. The contribution of the banking sector will be gradually increased in 2015 and 2016 because of a measure with regard to the deduction for risk capital[11].

A transparency tax (also called “Cayman tax") will be introduced[12], which is related to the conditions in which normal taxation is evaded by means of legal arrangements, but prevents double taxation as well as taxation of persons who do not actually receive revenues. Revenues received or paid via legal arrangements will be taxed in the form of a tax fiction, as if they were held directly by the actual beneficiary.
In addition, the fight against fiscal and social fraud is intensified.

5.5. Controlling expenditure

The efforts to enhance government efficiency and the quality of services offered to citizens while keeping expenditure under control, are continued.

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11 Part of the credit institutions' and the insurance undertakings' own funds will be considered as representative for the part of the prudential capital a reduction of the deduction for risk capital is calculated on.

12 Initially, this tax should have been applied as from 2016. At the time of the budget review of March 2015, it was decided to charge part of the revenue of this tax in 2015: the professional income was added to the measure and the advance payments on these revenues are applied for 2015.

Primary expenditure by the federal government is strictly limited. Linear cuts are made with regard to staff expenditure (4% in 2015 and 2% each year for the period of 2016-2019). The number of civil servants will be reduced by only partially replacing employees who leave the civil service. The linear cuts also concern investment credits, operating appropriations and optional grants. In addition, a number of departments have been subject to specific savings measures.

Moreover, public interest bodies and other entities which are consolidated with the Federal State, are requested to carry out similar structural savings with regard to staff appropriations and operating appropriations for the share of expenditure which is covered by the appropriations granted. The public bodies of social security are also subject to these structural savings. Specific savings are made with the Department of Defence, development co-operation and NMBS/SNCB (Belgian National Railways).

With regard to health care, the government gives priority to pursuing a high-quality system which is accessible to all citizens and which is sustainable on a financial level. Measures aiming at strengthening the efficiency of the healthcare system are emphasized. The structural savings are also pursued, in particular in the medicinal products' sector.

Health care expenditure is strictly observed. The overall budget target for 2015 has been established on the basis of RIZIV/INAMI estimates of September 2014, deducting the amount of the savings which was decided upon when drawing up the budget. This target is lower than the amount which would have been obtained when applying the statutory norm for the growth target of 3 %. In real terms, the growth target of health care expenditure will be reduced to 1.5 %, as from 2016. In addition, additional structural savings will be made on expenditure by 2018, within as well as outside the target.

In view of their positive effect on employment, the above-mentioned structural reforms of the labour market and pensions will also help to cut public expenditure.

Various social benefits are increased via a prosperity adjustment. It was decided to use the welfare envelope on the basis of the advice of the social partners. The intention is to raise these allowances to the level of the European poverty threshold and unemployment traps and to eliminate inactivity. More specifically, the pensions - in particular the minimum pensions - and the sickness and disability allowances are revalued. These measures strengthen the purchasing power of persons on lower incomes and contribute to energising demands, and as a consequence economic growth.

Enclosures

Annex 1: Structural balance Nominal balance German-speaking Community Structural balance

In % GDP	**2014**	**2015**	**2016**	**2017**	**2018**
1. Net lending or borrowing as regards the foreign countries	-0.5	0.5	0.6	1.0	1.3
2. Net lending or borrowing as regards the private sector	2.6	3.0	2.5	2.0	1.4
3. Net lending or borrowing as regards the general government	-3.2	-2.5	-2.0	-1.0	-0.2
4. Statistical discrepancy	0.0	0.0	0.0	0.0	0.0

Annex 2: Revenue with no change of policy

	2013 Level (million EUR)	2013 % GDP	2014	2015	2016	2017
1.Total receipt in case of unchanged policies	205,527	51.1	50.5	50.2	50.1	50.1

Annex 3: Annex 4: Amounts to be excluded from the expenditure criterion

	2014 Level (million EUR)	2014 % GDP	2015	2016	2017	2018
1. Expenses for EU programmes totally covered by receipts from EU resources	934	0.2	0.2	0.2	0.2	0.2
2. Cyclical expenses for unemployment benefits	589	0.1	0.1	0.1	0.0	0.0
3.+4. Rise in receipts (discretionary and by law)	1,194	0.3	0.4	0.1	0.1	0.1